

**NEGAUNEE PUBLIC SCHOOLS
NEGAUNEE, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Negaunee Public Schools, Negaunee, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Negaunee Public Schools basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Negaunee Public Schools, Negaunee, Michigan as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2005, on our consideration of the School District's internal control over financial reporting and our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 49.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 33 are not a required part of the basic financial statements but is supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information and Compliance Sections

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Negaunee Public Schools. Also, the accompanying schedule of expenditures of federal awards as listed under the "Compliance Section" in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 30, 2005

Negaunee Public Schools

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Negaunee Public Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Negaunee Public Schools as a whole were reported at \$3,595,897. Net assets are comprised of 100% governmental activities.
- During the year, Negaunee Public Schools expenses were \$12,124,286, while revenues from all sources totaled \$12,900,946, resulting in an increase in net assets of \$776,660.
- The general fund reported an increase of \$122,009 before other financing sources (uses) and a total decrease of \$(44,774). This is \$361,086 or 94% higher than the forecasted decrease of \$(405,860). This was a result of revenues and other sources being \$334,470 higher than forecasted and expenses and transfers out being \$26,616 lower than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Negaunee Public Schools financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole — *District-wide Financial Statements*

Our analysis of the Negaunee Public Schools as a whole begins on page 8. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues

Management's Discussion and Analysis (Unaudited) (Continued)

and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds – *governmental* and *proprietary* – use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – The School District does not have any Proprietary funds.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2005:

Table 1
Net Assets

	Governmental Activities- 2005	Governmental Activities- 2004
Current and other assets	\$2,961,519	\$2,690,365
Capital assets, net	5,078,783	4,929,665
Total Assets	<u>8,040,302</u>	<u>7,620,030</u>
Current liabilities	2,278,072	2,112,017
Long-term liabilities	2,166,333	2,688,776
Total Liabilities	<u>4,444,405</u>	<u>4,800,793</u>
Net Assets:		
Invested in capital assets, net of relate debt	3,282,114	2,656,328
Restricted	130,786	134,071
Unrestricted	182,997	28,838
Total Net Assets	<u>\$3,595,897</u>	<u>\$2,819,237</u>

The School District's net assets were \$3,595,897 at June 30, 2005. Capital assets, net of related debt totaling \$3,282,114, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$182,997 was unrestricted.

The \$182,997 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004.

Table 2
Changes in Net Assets

	Governmental Activities — 2005	Governmental Activities — 2004
Revenues:		
Program revenues:		
Charges for services	\$510,858	\$523,829
Operating grants and contributions	1,655,322	1,833,530
General revenues:		
Property taxes	1,900,612	1,561,245
State sources not restricted to specific program	8,719,754	8,445,083
Investment earnings	37,267	28,842
Gain (Loss) on sale of capital assets	4,431	(98,138)
Miscellaneous	72,702	76,941
Total Revenues	<u>12,900,946</u>	<u>12,371,332</u>

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities — 2005	Governmental Activities — 2004
Program Expenses:		
Instruction	\$7,499,516	\$7,360,119
Supporting services	3,293,173	3,306,518
Other governmental units	119,024	152,729
Food service activities	490,313	443,571
Athletic activities	301,286	313,790
Depreciation — unallocated	328,482	332,453
Interest on long-term debt	92,492	129,392
Total Expenses	<u>12,124,286</u>	<u>12,038,572</u>
Increase (decrease) in net assets	776,660	332,760
Net assets, beginning	<u>2,819,237</u>	<u>2,486,477</u>
Net Assets, Ending	<u>\$3,595,897</u>	<u>\$ 2,819,237</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$12,124,286. Certain activities were partially funded from those who benefited from the programs (\$510,858) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1,655,322). We paid for the remaining "public benefit" portion of our governmental activities with \$1,900,612 in taxes, \$8,719,754 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$776,660. The key changes in the net assets were the result of capital purchases in excess of current depreciation of \$165,695, net debt activity of \$377,151 accounted for through Statement of Net Assets but budgeted as fund expenditures and net decrease in employee benefit obligation of (\$163,188).

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$7,499,516	\$6,056,996
Supporting services	3,293,173	3,264,105
Other governmental units	119,024	60,367
Food service activities	490,313	20,363
Athletic activities	301,286	135,301
Totals	<u>\$11,703,312</u>	<u>\$9,537,132</u>

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,255,386, an increase of \$90,038 from the beginning of the year.

During the annual School election in June of 2004, the residents of the School District passed a proposal to establish a Sinking Fund to be used as allowed by law. For the 2004-05 school year, \$455,053 in revenues was collected from the millage assessed for this purpose. A portion of these revenues have been carried over in the combined fund balance to pay for projects to be completed after June 30, 2005, which increased the School District's fund balance to an amount higher than anticipated.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

With the uncertainty of the revenues coming from the State of Michigan, the administration became very conservative with controllable expenses as the school year came to a close. This action, along with unexpected revenue from many different local sources, has had a positive impact on the School District's General Fund fund balance. These types of local revenues cannot be budgeted as revenue during the school year as we cannot plan on their occurrence because of the types of activities that generate the revenues.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the School District had \$5,052,114 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	Governmental Activities – 2005	Governmental Activities – 2004
Land	\$92,536	\$79,036
Land improvements	260,013	260,013
Buildings	9,369,059	9,087,120
Equipment and furnishings	2,753,472	2,698,296
Construction in progress	7,000	-
	12,482,080	12,124,465
Less accumulated depreciation	(7,429,966)	(7,228,137)
Totals	\$5,052,114	\$ 4,896,328

Management's Discussion and Analysis (Unaudited) (Continued)

This year's additions of \$494,177 included office equipment, technology, building renovations, and buses. Debt was issued in the amount of \$114,526 to finance the purchase of buses.

We anticipate capital additions for the 2005-2006 fiscal year will be comparable to the 2004-2005 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$1,978,113 in bonds outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities — 2005	Governmental Activities — 2004
General obligation bonds	\$1,770,000	\$2,240,000
Notes payable	92,849	-
Durant debt	115,264	115,264
Totals	<u>\$1,978,113</u>	<u>\$2,355,264</u>

There was one new addition to debt this year for the purchase of school buses. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2006 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2006 fiscal year budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 75 percent to 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

The collection of revenues by the State can also affect the School District's general operation budget as it did in 2005. School districts throughout the state must adjust their budgets if the State decreases the per pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2005-06 school year, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Negaunee Public Schools Administration, 101 South Pioneer Avenue, Negaunee, Michigan, 49866.

Negaunee Public Schools
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 442,534
Investments	440,442
Receivables:	
Accounts receivable	8,734
Due from other governmental units	2,019,019
Inventories	4,028
Prepaid expenses	46,762
	<hr/>
TOTAL CURRENT ASSETS	2,961,519
	<hr/>
Noncurrent assets:	
Unamortized bond issue costs	26,669
Capital assets	12,482,080
Less accumulated depreciation	(7,429,966)
	<hr/>
TOTAL NONCURRENT ASSETS	5,078,783
	<hr/>
TOTAL ASSETS	8,040,302
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	440,711
Accrued payroll and other liabilities	141,085
Due to other governmental units	99,440
State aid notes payable	995,000
Current portion of employee benefit obligations	56,207
Current portion of long term debt obligations	515,732
Deferred revenue	29,897
	<hr/>
TOTAL CURRENT LIABILITIES	2,278,072
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of employee benefit obligations	715,292
Noncurrent portion of long term debt obligations	1,462,381
Less deferred discount on refunding bonds	(11,340)
	<hr/>
TOTAL NONCURRENT LIABILITIES	2,166,333
	<hr/>
TOTAL LIABILITIES	4,444,405
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	3,282,114
Restricted:	
Debt Service	130,786
Unrestricted	182,997
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TOTAL NET ASSETS	\$ 3,595,897
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See Notes to Financial Statements.

**Negaunee Public Schools
Statement of Activities
For the Year Ended June 30, 2005**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 7,499,516	\$ 15,145	\$ 1,427,375	\$ (6,056,996)
Supporting services	3,293,173	29,068	-	(3,264,105)
Other governmental units	119,024	58,657	-	(60,367)
Food service activities	490,313	274,387	195,563	(20,363)
Athletic activities	301,286	133,601	32,384	(135,301)
Interest on retirement of debt	92,492	-	-	(92,492)
Depreciation- unallocated	328,482	-	-	(328,482)
TOTAL GOVERNMENTAL ACTIVITIES	12,124,286	510,858	1,655,322	(9,958,106)
General revenues:				
Taxes				
Property taxes, levied for general purposes				1,042,501
Property taxes, levied for debt services				404,058
Property taxes, levied for sinking fund				454,053
State Aid not restricted to specific purposes				
General				8,719,754
Interest and investment earnings				37,267
Gain on sale of capital asset				4,431
Miscellaneous				72,702
TOTAL GENERAL REVENUES AND TRANSFERS				10,734,766
			CHANGES IN NET ASSETS	776,660
Net Assets, July 1				2,819,237
			NET ASSETS, JUNE 30	\$ 3,595,897

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Balance Sheet
June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total
ASSETS:			
Cash and cash equivalents	\$ 168,302	\$ 274,232	\$ 442,534
Investments	431,485	8,957	440,442
Receivables:			
Accounts receivable	8,668	66	8,734
Due from other governmental units	2,014,529	4,490	2,019,019
Due from other funds	8,174	-	8,174
Inventories	-	4,028	4,028
Prepaid expenditures	46,762	-	46,762
TOTAL ASSETS	\$ 2,677,920	\$ 291,773	\$ 2,969,693
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 440,711	\$ -	\$ 440,711
Accrued liabilities	140,675	410	141,085
Due to other governmental units	99,440	-	99,440
Due to other funds	-	8,174	8,174
Deferred revenue	29,897	-	29,897
State aid notes payable	995,000	-	995,000
TOTAL LIABILITIES	1,705,723	8,584	1,714,307
FUND BALANCES:			
Reserved for:			
Capital projects	-	152,403	152,403
Retirement of debt	-	130,786	130,786
Unreserved	972,197	-	972,197
TOTAL FUND BALANCES	972,197	283,189	1,255,386
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,677,920	\$ 291,773	\$ 2,969,693

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005**

Total Fund Balances for Governmental Funds	\$	1,255,386
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

	Cost of capital assets	12,482,080	
	Accumulated depreciation	<u>(7,429,966)</u>	
			5,052,114

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds.

26,669

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable	1,885,264	
Notes payable	92,849	
Employee benefits payable	771,499	
Deferred discount on refunding bonds	<u>(11,340)</u>	
		(2,738,272)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 3,595,897

See Notes to Financial Statements.

**Negaunee Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total
REVENUES:			
Federal sources	\$ 407,803	\$ 172,357	\$ 580,160
State sources	9,731,705	23,206	9,754,911
Local sources:			
Taxes and penalties	1,042,501	858,111	1,900,612
Interest income	26,346	10,921	37,267
Other local sources	113,244	440,372	553,616
Other governmental units	81,576	-	81,576
Other	-	2,713	2,713
TOTAL REVENUES	11,403,175	1,507,680	12,910,855
EXPENDITURES:			
Current:			
Instruction	7,616,276	-	7,616,276
Supporting services	3,290,983	-	3,290,983
Other governmental units	109,521	-	109,521
Food service activities	-	502,823	502,823
Athletic activities	-	301,286	301,286
Debt Service:			
Principal	21,677	470,000	491,677
Interest	18,292	74,200	92,492
Capital outlay	224,417	305,868	530,285
Other	-	-	-
TOTAL EXPENDITURES	11,281,166	1,654,177	12,935,343
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	122,009	(146,497)	(24,488)
OTHER FINANCING SOURCES (USES):			
Proceeds from notes	114,526	-	114,526
Transfers in	14,365	295,674	310,039
Transfers out	(295,674)	(14,365)	(310,039)
TOTAL OTHER FINANCING SOURCES (USES)	(166,783)	281,309	114,526
NET CHANGE IN FUND BALANCES	(44,774)	134,812	90,038
Fund Balance, July 1	1,016,971	148,377	1,165,348
FUND BALANCE, JUNE 30	\$ 972,197	\$ 283,189	\$ 1,255,386

See Notes to Financial Statements.

Negaunee Public Schools
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	90,038
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	328,482	
Capital outlays	<u>(494,177)</u>	165,695

Governmental funds do not report capital assets. Therefore, the net book value on the disposal of capital assets is only reported as an expense in the statement of activities.	(9,909)
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Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(114,526)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	491,677
--	---------

Deferred discount on refunding bonds is reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.	(2,835)
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Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.	(6,668)
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Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	163,188
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Change in Net Assets of Governmental Activities	\$	<u>776,660</u>
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**Negaunee Public Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005**

	Student Activity Agency Fund
	<hr/>
ASSETS:	
Cash and equivalents	\$ 196,713
	<hr/>
TOTAL ASSETS	<u><u>\$ 196,713</u></u>
LIABILITIES:	
Due to groups, organizations and activities	\$ 196,713
	<hr/>
TOTAL LIABILITIES	<u><u>\$ 196,713</u></u>

See Notes to Financial Statements.

NEGAUNEE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Negaunee Public Schools conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the Negaunee Public Schools contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund - The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service and Athletics Funds.

Debt Retirement Funds - The Debt Retirement Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Fund - Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Trust and Agency Fund - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. **Restricted Net Assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. **Unrestricted Net Assets** – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2005, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$442,534	\$196,713	\$639,247
Investments	440,442	-	440,442
	<u>\$882,976</u>	<u>\$196,713</u>	<u>\$1,079,689</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$633,909 of the District's bank balance of \$833,909 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2005, the District had the following investments.

Investment Type	Fair Value	Investment Maturities Less than 1 Year
Michigan Liquid Asset Fund – Mutual Funds	<u>\$440,442</u>	<u>\$440,442</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The District's investments are in accordance with statutory authority.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

NOTE D – INTERFUND ACTIVITY:

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved.

The amounts of interfund receivables and payables as of June 30, 2005 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$8,174	School Service	\$8,174
Total	<u>\$8,174</u>	Total	<u>\$8,174</u>

A summary of transfers to/from other funds during fiscal year 2005 is as follows:

Fund	Transfers In	Fund	Transfers Out
Athletics	\$135,301	General	\$295,674
School Service	32,873		
Debt, 1997 Issue	127,500		
	295,674		295,674
General	14,365	Capital Projects	14,365
Total	<u>\$310,039</u>	Total	<u>\$310,039</u>

NOTE E – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$79,036	\$13,500	\$-	\$92,536
Construction in progress	-	7,000	-	7,000
Capital assets being depreciated:				
Land improvements	260,013	-	-	260,013
Buildings and additions	9,087,120	281,939	-	9,369,059
Equipment and furniture	1,890,566	77,212	45,157	1,922,621
School buses	807,730	114,526	91,405	830,851
Total Capital Assets	<u>12,124,465</u>	<u>494,177</u>	<u>136,562</u>	<u>12,482,080</u>
Less accumulated depreciation:				
Land improvements	169,700	11,698	-	181,398
Buildings and additions	4,868,156	191,453	-	5,059,609
Equipment and furniture	1,572,385	48,523	35,248	1,585,661
School buses	617,896	76,808	91,405	603,298
Total Accumulated Depreciation	<u>7,228,137</u>	<u>328,482</u>	<u>126,653</u>	<u>7,429,966</u>
CAPITAL ASSETS, NET	<u>\$4,896,328</u>	<u>\$165,695</u>	<u>\$9,909</u>	<u>\$5,052,114</u>

Depreciation expense charged to governmental activities was \$328,482.

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District offers terminal leave benefits for teachers having ten years of service. This payment is based upon the teacher's base salary at retirement and the number of years of service beyond ten years.

There is also an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days at a rate of \$20 for each day accumulated prior to September 1, 1981 and \$47.42 for each day accumulated after September 1, 1981. The sick leave liability has been calculated in accordance with GASB #16.

Accrued vacation represents vacation time that has been earned but not taken. This vacation time must be used by the union employees within three months after their next anniversary date, or it will be forfeited. For administrative/supervisory employees this vacation time is paid out at their next anniversary date.

As of June 30, 2005, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Early Retirement	\$112,414
Terminal Leave	50,828
Sick Leave	600,912
Vacation	7,345
TOTAL	\$771,499

NOTE G – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

Debt Service Funds - The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

Capital Projects Funds - The resources of the Capital Projects Funds have been accumulated for the specific purpose of acquiring fixed assets. The funds are reserved for these purposes.

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Bonds Payable:				
1997 General Obligation Bonds	\$350,000	\$-	\$110,000	\$240,000
1998 School Improvement Bonds	115,264	-	-	115,264
2002 Refunding Bonds	1,890,000	-	360,000	1,530,000
Notes Payable	-	114,526	21,677	92,849
Employee Benefits Payable	934,687	13,304	176,492	771,499
TOTAL	\$3,289,951	\$127,830	\$668,169	\$2,749,612

NOTE H – LONG-TERM DEBT (Continued):

Long-term debt at June 30, 2005 consists of the following:

1997 General Obligation School Building and Site Bonds June 30, 2005				
School Year	November 1	May 1		Total
	Interest	Interest	Principal	
2005-2006	\$6,000	\$6,000	\$115,000	\$127,000
2006-2007	3,125	3,125	125,000	131,250
	<u>\$9,125</u>	<u>\$9,125</u>	<u>\$240,000</u>	<u>\$258,250</u>

General Obligation School Building and Site Bonds originally issued for \$995,000 and dated June 1, 1997 mature annually on May 1, 1998 through May 1, 2007 and bear interest at a rate of 4.5% to 5% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

School Improvement Bonds Series 1998 June 30, 2005			
School Year	Interest	Principal	Total
2005-2006	\$3,937	\$8,733	\$12,670
2006-2007	3,521	9,147	12,668
2007-2008	3,085	9,584	12,669
2008-2009	2,629	10,041	12,670
2009-2010	2,151	10,519	12,670
2011-2013	17,885	67,240	85,125
	<u>\$33,208</u>	<u>\$115,264</u>	<u>\$148,472</u>

The School Improvement Bonds, Series 1998 (\$180,419) dated November 24, 1998 mature annually on May 15, with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan.

1997 General Obligation Refunding Bonds, Series 2002 June 30, 2005				
School Year	November 1	May 1		Total
	Interest	Interest	Principal	
2005-2006	\$22,950	\$22,950	\$370,000	\$415,900
2006-2007	17,400	17,400	380,000	414,800
2007-2008	11,700	11,700	390,000	413,400
2008-2009	5,850	5,850	390,000	401,700
	<u>\$57,900</u>	<u>\$57,900</u>	<u>\$1,530,000</u>	<u>\$1,645,800</u>

Refunding Bonds originally issued for \$1,890,000 and dated November 13, 2002, mature annually on May 1, 2005 through May 1, 2009 and bear interest at a rate of 3% per annum. Interest is paid semi-annually on May 1 and November 1 each year beginning May 1, 2003.

NOTE H – LONG-TERM DEBT (Continued):**School Bus Notes Payable
June 30, 2005**

School Year	Interest	Principal	Total
2005-2006	\$3,333	\$21,999	\$25,332
2006-2007	2,543	22,789	25,332
2007-2008	1,725	23,607	25,332
2008-2009	878	24,454	25,332
	<u>\$8,479</u>	<u>\$92,849</u>	<u>\$101,328</u>

Notes payable originally issued for \$114,526 and dated August 10, 2004 mature annually as scheduled above on June 30, 2005 through June 30, 2009 bearing an interest rate of 3.59% per annum.

As of June 30, 2005 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

School Year	Principal	Interest	Total
2005-2006	\$515,732	\$65,170	\$580,902
2006-2007	536,936	47,114	584,050
2007-2008	423,191	28,210	451,401
2008-2009	424,495	15,207	439,702
2009-2010	10,519	2,151	12,670
2010-2013	67,240	17,885	85,125
	<u>1,978,113</u>	<u>175,737</u>	<u>2,153,850</u>
Employee Benefits Payable	771,499	-	771,499
TOTALS	<u>\$2,749,612</u>	<u>\$175,737</u>	<u>\$2,925,349</u>

NOTE I – SHORT TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
State Anticipation Note	<u>\$995,000</u>	<u>\$995,000</u>	<u>\$995,000</u>	<u>\$995,000</u>

NOTE J – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 – August 2005. The local revenue is recognized as outlined in Note A – Property Taxes.

NOTE K – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005:

	<u>Excess Expenditures</u>
General Fund:	
Basic programs	\$152,946
Pupil services	13,569
Employee benefits – supporting	3,915
Capital outlay	102,772
Special Revenue Funds:	
Food service activities	7,727

NOTE L – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$1,206,871 which consisted of \$1,000,641 from the District and \$206,230 from employees electing the MIP option. These represent approximately 14% and 3% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$6,730,000. The District's total payroll was approximately \$7,020,000.

NOTE L – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued):

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE M – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE N – ECONOMIC DEPENDENCY:

The School District receives approximately 80 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of Negaunee Public Schools.

NOTE O – SINKING FUND:

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**REQUIRED SUPPLEMENTAL
INFORMATION**

**Negaunee Public Schools
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Federal sources	\$ 427,232	\$ 433,262	\$ 407,803	\$ 6,030	\$ (25,459)
State sources	9,161,815	9,350,926	9,731,705	189,111	380,779
Local sources	1,538,816	958,786	1,182,091	(580,030)	223,305
Other governmental units	33,500	454,622	81,576	421,122	(373,046)
TOTAL REVENUES	11,161,363	11,197,596	11,403,175	36,233	205,579
EXPENDITURES:					
Instruction:					
Basic programs	5,270,884	3,475,525	3,628,471	1,795,359	(152,946)
Added needs	2,032,607	1,706,554	1,698,008	326,053	8,546
Employee benefits - instruction	-	2,424,602	2,289,797	(2,424,602)	134,805
Total Instruction	7,303,491	7,606,681	7,616,276	(303,190)	(9,595)
Supporting Services:					
Pupil services	576,799	330,609	344,178	246,190	(13,569)
Instructional staff	374,902	107,505	107,255	267,397	250
General administration	238,811	177,120	173,665	61,691	3,455
School administration	644,035	475,569	458,478	168,466	17,091
Business services	1,266,928	976,020	921,874	290,908	54,146
Transportation	569,350	412,808	400,641	156,542	12,167
Central staff	-	-	-	-	-
Employee benefits - supporting	-	880,977	884,892	(880,977)	(3,915)
Total Supporting Services	3,670,825	3,360,608	3,290,983	310,217	69,625
Other Expenditures:					
Capital outlay	-	121,645	224,417	(121,645)	(102,772)
Outgoing transfers & other	304,322	313,522	149,490	(9,200)	164,032
TOTAL EXPENDITURES	11,278,638	11,402,456	11,281,166	(123,818)	121,290
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(117,275)	(204,860)	122,009	(87,585)	326,869
OTHER FINANCING SOURCES (Uses)					
Proceeds from notes	-	-	114,526	-	114,526
Transfers in	-	-	14,365	-	14,365
Transfers out	-	(201,000)	(295,674)	(201,000)	(94,674)
TOTAL OTHER FINANCING SOURCES (USES)	-	(201,000)	(166,783)	(201,000)	34,217
NET CHANGE IN FUND BALANCE	(117,275)	(405,860)	(44,774)	(288,585)	361,086
Fund Balance, July 1	1,016,971	1,016,971	1,016,971	-	-
FUND BALANCE, JUNE 30	\$ 899,696	\$ 611,111	\$ 972,197	\$ (288,585)	\$ 361,086

**OTHER SUPPLEMENTAL
INFORMATION**

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal Sources:			
Restricted:			
Title IV - Indian Education	\$ -	\$ 22,525	\$ 22,525
Restricted - received through the state:			
E.I.C.I.A. Title I	433,262	187,873	(245,389)
E.I.C.I.A. Flow Through Grant Title IV	-	10,930	10,930
Restricted - received through MARESA:			
Public Law 94-142 Special Education Flowthrough	-	88,159	88,159
Other grants	-	98,316	98,316
Total Federal Sources	433,262	407,803	(25,459)
State Sources:			
State school aid - unrestricted	9,350,926	8,719,754	(631,172)
Restricted:			
At risk	-	159,536	159,536
Durant funds	-	18,042	18,042
Special education	-	409,359	409,359
Drivers education	-	5,585	5,585
Advanced and accelerated	-	202	202
Vocational education	-	40,588	40,588
Other grants	-	378,639	378,639
Total State Sources	9,350,926	9,731,705	380,779
Local Sources:			
Property tax levy	958,786	1,037,810	79,024
Penalty and interest on delinquent taxes	-	4,691	4,691
Income from investments	-	26,346	26,346
Other local revenue	-	113,244	113,244
Total Local Sources	958,786	1,182,091	223,305
Other Governmental Units:			
Transfers from other governmental units	454,622	58,657	(395,965)
Indirect costs	-	22,919	22,919
Total Other Governmental Units	454,622	81,576	(373,046)
TOTAL REVENUES	11,197,596	11,403,175	205,579
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	1,428,334	1,597,462	(169,128)
Purchased services	6,140	3,738	2,402
Supplies and materials	46,211	41,749	4,462
Capital outlay	-	7,156	(7,156)
Total Elementary	1,480,685	1,650,105	(169,420)

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Middle School:			
Salaries	\$ 841,526	\$ 931,516	\$ (89,990)
Purchased services	21,705	23,684	(1,979)
Supplies and materials	35,600	35,830	(230)
Capital outlay	10,000	4,679	5,321
Total Middle School	908,831	995,709	(86,878)
High School:			
Salaries	993,301	937,132	56,169
Purchased services	11,275	9,237	2,038
Supplies and materials	91,433	48,123	43,310
Capital outlay	3,482	3,481	1
Total High School	1,099,491	997,973	101,518
Special Education:			
Salaries	871,470	882,504	(11,034)
Purchased services	1,070	385	685
Supplies and materials	4,900	2,497	2,403
Capital outlay	-	-	-
Total Special Education	877,440	885,386	(7,946)
Compensatory Education:			
Salaries	277,956	244,331	33,625
Purchased services	16,583	6,246	10,337
Supplies and materials	10,638	8,665	1,973
Capital outlay	-	-	-
Total Compensatory Education	305,177	259,242	45,935
Professional Development:			
Salaries	142,270	161,885	(19,615)
Purchased services	26,000	23,196	2,804
Supplies and materials	25,254	39,118	(13,864)
Capital outlay	74,000	58,249	15,751
Total Professional Development	267,524	282,448	(14,924)
Drivers Training:			
Salaries	22,000	16,398	5,602
Supplies and materials	800	1,120	(320)
Capital outlay	-	-	-
Total Drivers Training	22,800	17,518	5,282

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Speech and Physically Impaired:			
Salaries	\$ 81,021	\$ 81,021	\$ -
Purchased services	500	1,218	(718)
Capital outlay	-	-	-
Total Speech and Physically Impaired	81,521	82,239	(718)
Latch Key:			
Salaries	13,400	11,443	1,957
Supplies and materials	1,910	1,707	203
Capital outlay	-	-	-
Total Latch Key	15,310	13,150	2,160
Vocational Education:			
Salaries	210,782	194,471	16,311
Purchased services	-	12,004	(12,004)
Supplies and materials	-	9,799	(9,799)
Capital outlay	20,050	21,451	(1,401)
Total Vocational Education	230,832	237,725	(6,893)
Employee Benefits - Instruction	2,424,602	2,289,797	134,805
TOTAL INSTRUCTION	7,714,213	7,711,292	2,921
Supporting Services:			
Pupil Services:			
Guidance:			
Salaries	237,464	248,316	(10,852)
Supplies, materials and other	1,640	35	1,605
Other	-	1,477	(1,477)
Health:			
Salaries	27,004	29,590	(2,586)
Purchased services	500	1,144	(644)
Supplies and materials	500	1,011	(511)
Other			
Salaries	60,106	54,556	5,550
Purchased services	-	1,788	(1,788)
Supplies and materials	3,395	6,261	(2,866)
Total Pupil Services	330,609	344,178	(13,569)

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Instructional Staff:			
Library:			
Salaries	\$ 89,210	\$ 89,130	\$ 80
Supplies and materials	6,490	6,822	(332)
Audio-Visual:			
Purchased services	10,735	9,329	1,406
Supplies and materials	1,070	1,974	(904)
Total Instructional Staff	107,505	107,255	250
General Administration:			
Board of Education:			
Salaries	7,700	6,831	869
Purchased services	24,100	28,524	(4,424)
Supplies and materials	11,400	5,231	6,169
Executive Administration:			
Salaries	123,920	124,658	(738)
Purchased services	6,500	5,848	652
Supplies and materials	3,500	2,573	927
Total General Administration	177,120	173,665	3,455
School Administration:			
Offices of Principals:			
Salaries	453,804	437,717	16,087
Purchased services	-	178	(178)
Supplies, materials and other	21,765	20,583	1,182
Total School Administration	475,569	458,478	17,091
Business Services:			
Fiscal Services:			
Salaries	86,074	89,837	(3,763)
Purchased services	14,949	14,803	146
Supplies, materials and other	9,500	4,559	4,941
Capital outlay	14,113	14,875	(762)
Other	13,517	11,869	1,648
Operation and Maintenance:			
Salaries	326,236	325,178	1,058
Purchased services	492,244	440,323	51,921
Supplies and materials	33,500	35,305	(1,805)
Capital outlay	-	-	-
Pupil Transportation:			
Salaries	286,358	289,534	(3,176)
Purchased services	26,750	28,435	(1,685)
Supplies and materials	99,700	82,672	17,028
Capital outlay	-	114,526	(114,526)
Total Business Services	1,402,941	1,451,916	(48,975)

**Negaunee Public Schools
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Employee benefits - supporting services	\$ 880,977	\$ 884,892	\$ (3,915)
TOTAL SUPPORTING SERVICES	3,374,721	3,420,384	(45,663)
Other:			
Transfer to other governmental units	144,738	109,521	35,217
Principal on notes	131,678	21,677	110,001
Interest and fiscal charges	37,106	18,292	18,814
TOTAL OTHER	313,522	149,490	164,032
TOTAL EXPENDITURES	11,402,456	11,281,166	121,290
EXCESS REVENUES (EXPENDITURES)	(204,860)	122,009	326,869
Other Financing Sources (Uses):			
Proceeds from notes	-	114,526	114,526
Transfers in:			
Capital projects	-	14,365	14,365
Transfers out:			
School Service	(32,390)	(32,873)	(483)
Inter-scholastic Athletics	(168,610)	(135,301)	33,309
1997 Debt Service	-	(127,500)	(127,500)
TOTAL OTHER FINANCING SOURCES (USES)	(201,000)	(166,783)	34,217
NET CHANGE IN FUND BALANCE	(405,860)	(44,774)	361,086
Fund Balance, July 1	1,016,971	1,016,971	-
FUND BALANCE, JUNE 30	\$ 611,111	\$ 972,197	\$ 361,086

**Negaunee Public Schools
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Total
ASSETS:				
Cash and equivalents	\$ -	\$ 121,829	\$ 152,403	\$ 274,232
Investments	-	8,957	-	8,957
Accounts receivable	66	-	-	66
Due from other governmental units	4,490	-	-	4,490
Inventories	4,028	-	-	4,028
TOTAL ASSETS	<u>\$ 8,584</u>	<u>\$ 130,786</u>	<u>\$ 152,403</u>	<u>\$ 291,773</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	\$ 8,174	\$ -	\$ -	\$ 8,174
Accrued liabilities	410	-	-	410
TOTAL LIABILITIES	<u>8,584</u>	<u>-</u>	<u>-</u>	<u>8,584</u>
FUND BALANCES:				
Reserved for:				
Debt service	-	130,786	-	130,786
Capital outlay	-	-	152,403	152,403
Unreserved	-	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>130,786</u>	<u>152,403</u>	<u>283,189</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,584</u>	<u>\$ 130,786</u>	<u>\$ 152,403</u>	<u>\$ 291,773</u>

Negaunee Public Schools
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Total
REVENUES:				
Federal sources	\$ 172,357	\$ -	\$ -	\$ 172,357
State aid - restricted	23,206	-	-	23,206
Taxes and penalties	-	404,058	454,053	858,111
School lunch activities	274,387	-	-	274,387
Athletic activities	165,985	-	-	165,985
Interest income	-	6,644	4,277	10,921
Other	-	2,713	-	2,713
TOTAL REVENUES	635,935	413,415	458,330	1,507,680
EXPENDITURES:				
School lunch activities	502,823	-	-	502,823
Athletic activities	301,286	-	-	301,286
Debt service:				
Principal	-	470,000	-	470,000
Interest	-	74,200	-	74,200
Capital outlay	-	-	305,868	305,868
Other	-	-	-	-
TOTAL EXPENDITURES	804,109	544,200	305,868	1,654,177
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(168,174)	(130,785)	152,462	(146,497)
OTHER FINANCING SOURCES (USES):				
Transfers in	168,174	127,500	-	295,674
Transfers (out)	-	-	(14,365)	(14,365)
TOTAL OTHER FINANCING SOURCES (USES)	168,174	127,500	(14,365)	281,309
NET CHANGE IN FUND BALANCE	-	(3,285)	138,097	134,812
Fund Balance, July 1	-	134,071	14,306	148,377
FUND BALANCE, JUNE 30	\$ -	\$ 130,786	\$ 152,403	\$ 283,189

**Negaunee Public Schools
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2005**

	School Lunch Fund	Athletic Fund	Total
ASSETS:			
Accounts receivable	\$ 66	\$ -	\$ 66
Due from other governmental units	4,490	-	4,490
Inventories	4,028	-	4,028
TOTAL ASSETS	\$ 8,584	\$ -	\$ 8,584
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Due to other funds	\$ 8,174	\$ -	\$ 8,174
Accrued liabilities	410	-	410
TOTAL LIABILITIES	8,584	-	8,584
FUND BALANCES:			
Reserved	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,584	\$ -	\$ 8,584

Negaunee Public Schools
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005

	School Lunch Fund	Athletic Fund	Total
REVENUES:			
Federal sources	\$ 172,357	\$ -	\$ 172,357
State aid - restricted	23,206	-	23,206
School lunch activities	274,387	-	274,387
Athletic activities	-	165,985	165,985
TOTAL REVENUES	469,950	165,985	635,935
EXPENDITURES:			
School lunch activities	502,823	-	502,823
Athletic activities	-	301,286	301,286
TOTAL EXPENDITURES	502,823	301,286	804,109
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(32,873)	(135,301)	(168,174)
OTHER FINANCING SOURCES (USES):			
Transfers in	32,873	135,301	168,174
Transfers (out)	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	-	-	-
FUND BALANCE, JUNE 30	\$ -	\$ -	\$ -

**Negaunee Public Schools
School Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal sources:			
Entitlement payments	\$ 170,000	\$ 160,202	\$ (9,798)
Donated commodities		12,155	12,155
State aid - restricted	24,686	23,206	(1,480)
Student lunches - type A	268,020	213,141	(54,879)
Student breakfast	-	14,738	14,738
Adult lunches	-	7,025	7,025
Ala carte sales	-	37,785	37,785
Milk	-	240	240
Other food receipts	-	1,458	1,458
TOTAL REVENUES	<u>462,706</u>	<u>469,950</u>	<u>7,244</u>
EXPENDITURES:			
School lunch activities:			
Salaries	463,946	155,443	308,503
Employee benefits	-	49,030	(49,030)
Purchased services	7,150	14,219	(7,069)
Other costs	24,000	41,865	(17,865)
Food and milk	-	214,775	(214,775)
Donated commodities	-	14,751	(14,751)
Capital outlay	-	12,740	(12,740)
TOTAL EXPENDITURES	<u>495,096</u>	<u>502,823</u>	<u>(7,727)</u>
EXCESS REVENUES (EXPENDITURES)	(32,390)	(32,873)	(483)
OTHER FINANCING (USES):			
Transfers in	<u>32,390</u>	<u>32,873</u>	<u>483</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**Negaunee Public Schools
Athletics Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
General admission	\$ 138,987	\$ 97,144	\$ (41,843)
Participation fees	-	36,457	36,457
Other revenues	-	32,384	32,384
TOTAL REVENUES	<u>138,987</u>	<u>165,985</u>	<u>26,998</u>
EXPENDITURES:			
Athletic activities:			
Salaries	248,050	174,121	73,929
Employee benefits	-	38,581	(38,581)
Purchased services	30,000	25,894	4,106
Supplies and materials	-	9,838	(9,838)
Other	29,547	47,512	(17,965)
Capital outlay	-	5,340	(5,340)
TOTAL EXPENDITURES	<u>307,597</u>	<u>301,286</u>	<u>6,311</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(168,610)</u>	<u>(135,301)</u>	<u>33,309</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>168,610</u>	<u>135,301</u>	<u>(33,309)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**Negaunee Public Schools
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2005**

	Debt Retirement 1990 Issue	Debt Retirement 1997 Issue	Durant Debt	Total
ASSETS:				
Cash and equivalents	\$ 121,829	\$ -	\$ -	\$ 121,829
Investments	8,957	-	-	8,957
TOTAL ASSETS	<u>\$ 130,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,786</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Reserved	130,786	-	-	130,786
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 130,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,786</u>

**Negaunee Public Schools
Nonmajor Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

	Debt Retirement 1990 Issue	Debt Retirement 1997 Issue	Durant Debt	Total
REVENUES:				
Property tax levy	\$ 402,722	\$ -	\$ -	\$ 402,722
Penalty and interest on delinquent taxes	1,336	-	-	1,336
Interest income	6,644	-	-	6,644
Other	2,713	-	-	2,713
TOTAL REVENUES	413,415	-	-	413,415
EXPENDITURES:				
Debt Service:				
Principal	360,000	110,000		470,000
Interest	56,700	17,500		74,200
Paying agent fees and other costs	-	-	-	-
TOTAL EXPENDITURES	416,700	127,500	-	544,200
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,285)	(127,500)	-	(130,785)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	127,500	-	127,500
TOTAL OTHER FINANCING SOURCES (USES)	-	127,500	-	127,500
NET CHANGE IN FUND BALANCE	(3,285)	-	-	(3,285)
Fund Balance, July 1	134,071		-	134,071
FUND BALANCE, JUNE 30	\$ 130,786	\$ -	\$ -	\$ 130,786

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

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GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Negaunee Public Schools as of and for the year ended June 30, 2005, which collectively comprise the Negaunee Public Schools' basic financial statements and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Negaunee Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate report to management letter dated September 30, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Negaunee Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described to management in a separate letter dated September 30, 2005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

This report is intended for the information of Negaunee Public Schools, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 30, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Compliance

We have audited the compliance of Negaunee Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Negaunee Public School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Negaunee Public School's management. Our responsibility is to express an opinion on Negaunee Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Negaunee Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Negaunee Public School's compliance with those requirements.

In our opinion, Negaunee Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Negaunee Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Negaunee Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of Negaunee Public Schools, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 30, 2005

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/04	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue 6/30/05
US Department of Education:							
Direct Program:							
Title V, Indian Education S060A031215	84.060	\$ 22,312	\$ 22,312	\$ 10,738	\$ -	\$ 10,738	\$ -
Title V, Indian Education S060A041215	84.060	22,525	-	-	22,525	-	22,525
TOTAL DIRECT PROGRAM		44,837	22,312	10,738	22,525	10,738	22,525
Passed through Michigan Department of Education (M.D.E.):							
E.C.I.A. Title I:							
041530-0304	84.010	245,965	244,008	134,711	1,957	136,668	-
051530-0405	84.010	216,035	-	-	185,916	117,528	68,388
TOTAL		462,000	244,008	134,711	187,873	254,196	68,388
Title V LEA Allocation							
040250-0304	84.298	1,191	750	750	441	1,191	-
030250-0203	84.298	-	-	-	-	-	-
TOTAL		1,191	750	750	441	1,191	-
Technology Literacy Challenge Grants:							
044290-0304	84.318	5,959	5,959	5,959	-	5,959	-
054290-0405	84.318	5,490	-	-	3,319	3,319	-
TOTAL		11,449	5,959	5,959	3,319	9,278	-
Title IIA, Improving Teacher Quality							
040520-0304	84.367	77,526	69,645	39,682	7,611	47,293	-
050520-0405	84.367	76,138	-	-	76,138	30,898	45,240
TOTAL		153,664	69,645	39,682	83,749	78,191	45,240
Arts Services Grant Agreement							
N/A	45.025	-	-	-	2,600	2,600	-
TOTAL		-	-	-	2,600	2,600	-
TOTAL PASSED THROUGH M.D.E.		628,304	320,362	181,102	277,982	345,456	113,628
Passed Through Marquette-Alger Regional Education Service Agency (MARESA):							
P.L. 94-142 Flow Through:							
040450-0304	84.027	161,244	156,437	73,764	-	73,764	-
050450-0405	84.027	88,159	-	-	88,159	59,290	28,869
TOTAL		249,403	156,437	73,764	88,159	133,054	28,869
Safe & Drug Free Schools & Communities:							
042860-0304	84.186	3,596	3,596	-	-	-	-
052860-0405	84.186	3,297	-	-	3,297	3,297	-
TOTAL		6,893	3,596	-	3,297	3,297	-

(Continued)
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NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/04	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue 6/30/05
Carl D. Perkins Vocational and Applied Technologies Education Act: 4012-02 5012-02	84.048	\$ 10,795	\$ 10,795	\$ 10,795	\$ -	\$ 10,795	\$ -
	84.048	11,544	-	-	11,544	11,544	-
	TOTAL	22,339	10,795	10,795	11,544	22,339	-
Special Education - Preschool Grants: 040480-0304 050480-0405	84.173	1,000	1,000	1,000	-	1,000	-
	84.173	1,000	-	-	1,000	1,000	-
	TOTAL	2,000	1,000	1,000	1,000	2,000	-
Medicaid Outreach Reimbursement: N/A	93.778	91,514	91,513	51,532	-	51,532	-
	TOTAL	91,514	91,513	51,532	-	51,532	-
Medicaid FFS-Transportation N/A	93.778	3,296	-	-	3,296	3,296	-
	TOTAL	3,296	-	-	3,296	3,296	-
TOTAL PASSED THROUGH MARESA		375,445	263,341	137,091	107,296	215,518	28,869
TOTAL U.S. DEPARTMENT OF EDUCATION		1,048,586	606,015	328,931	407,803	571,712	165,022
U.S. Department of Agriculture: Nutrition Cluster: Passed Through M.D.E.:							
National School Lunch Program:							
Section 4 - Total Serving 1956 & 1957		41,788	37,620	-	38,187	38,187	-
Section 11- Total Serving 1966 & 1967		107,859	87,192	-	98,537	98,537	-
Snacks		567	568	-	507	507	-
Natl. School Breakfast Program		25,760	21,213	-	22,971	22,971	-
Natl. School Lunch Special Milk		-	-	-	-	-	-
TOTAL NUTRITION CLUSTER		175,974	146,593	-	160,202	160,202	-
Food Distribution:							
Entitlement Commodities		10,909	12,098	-	10,909	10,909	-
Bonus Commodities		1,246	2,134	-	1,246	1,246	-
TOTAL		12,155	14,232	-	12,155	12,155	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		188,129	160,825	-	172,357	172,357	-
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 1,236,715	\$ 766,840	\$ 328,931	\$ 580,160	\$ 744,069	\$ 165,022

NEGAUNEE PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2005

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2005 and are not included on the Schedule of Expenditures of Federal Awards.

Description	Project Number	Amount Reported
School Breakfast Program	046320	\$4,785
Drivers Education Grants	046650	5,585
	TOTAL	\$10,370

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		\$513,428
Add payments not on R7120:		
Food distribution commodities	\$12,155	
Direct Program	22,525	
Passed through MARESA	107,296	
Art Services Grant	<u>2,600</u>	144,576

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

Less payments on R7120 not Federal:		
School Breakfast Program	\$4,785	
Drivers Education Grants	<u>5,585</u>	<u>\$(10,370)</u>
Less Payments on R7120:		
Recorded as receivable at June 30, 2004:		
Title I	134,711	
Title II A, Improving Teacher Quality	39,682	
Technology Literacy Challenge	5,959	
Title V LEA Allocation	<u>750</u>	<u>(181,102)</u>
Add Payments not on R7120:		
Recorded as receivable at June 30, 2005:		
Title I	68,388	
Title II A, Improving Teacher Quality	<u>45,240</u>	<u>113,628</u>
TOTAL FEDERAL AWARDS EXPENDITURES		
REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		<u><u>\$580,160</u></u>

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:	
Total Federal Revenue Sources Reported in the Financial Statements	\$407,803
SCHOOL SERVICE SPECIAL REVENUE FUND:	
Federal Sources - Entitlements and Commodities Reported in the Financial Statements	<u>172,357</u>
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u><u>\$580,160</u></u>

NEGAUNEE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Negaunee Public Schools.
2. Reportable conditions relating to the audit of the financial statements are reported in Section B of this schedule.
3. Instances of noncompliance material to the financial statements of the Negaunee Public Schools were disclosed during the audit and are reported in Section B of this schedule.
4. No reportable conditions relating to the audit of the major federal award programs are reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Negaunee Public Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Negaunee Public Schools were disclosed during the audit.
7. The programs tested as major programs were:

Title I	CFDA84.010
---------	------------
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Negaunee Public Schools was determined to be a low-risk auditee.

B. FINDINGS – FINDINGS FINANCIAL STATEMENTS AUDIT

The following reportable conditions were noted:

- 05 – 01 **Condition:** The accounting system of the District contains general ledger accounts that are not being reconciled on a timely basis.
- Criteria:** Internal controls should be in place to ensure general ledger accounts are reconciled timely.
- Effect:** The general ledger contains the accounts and records which are the basis for the preparation of the financial statements and for them to be free of a material error or irregularity the general ledger accounts need to be reconciled timely.
- Recommendation:** Management should begin reconciling the general ledger accounts on a monthly basis and any adjustments should be processed timely.
- Management Response:** Management concurs.

B. FINDINGS – FINDINGS FINANCIAL STATEMENTS AUDIT (Continued):

The following noncompliance item was noted:

05 – 02 **Condition:** The School District was found to be in violation of the legal and contractual provisions of Public Act 621 whereby excesses of expenditures over appropriations existed in certain individual funds as enumerated in Footnote K of the financial statements.

Criteria: Internal controls should be in place to ensure expenditures do not exceed appropriations.

Effect: When expenditures exceed appropriations, the School District is in violation of Public Act 621 and there is a potential negative impact on the financial position.

Recommendation: Management should monitor expenditures throughout the fiscal year to ensure expenditures do not exceed appropriations.

Management Response: Management concurs.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDITS

➤ **NONE**

NEGAUNEE PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2005

There were no financial statement findings nor findings and questioned costs for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

In planning and performing our audit of the financial statements of the Negaunee Public Schools, Negaunee, Michigan as of and for the year ended June 30, 2005 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design, or operation of the internal control structure that, in our judgment, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Instances of Non-Compliance

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The main purpose of P.A. 621 was to require that all local units of government adopt balanced budgets to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provision of P.A. 621 are as follows:

Local units of government must adopt a budget.

1. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
2. The budget must be amended when necessary.
3. Debt shall not be entered into unless the debt is permitted by law.
4. Expenditures shall not be incurred in excess of the amount appropriated.
5. Expenditures shall not be made unless authorized in the budget.
6. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedure shall be filed with the State Treasurer and reported to the Attorney General.

Board of Education
Negaunee Public Schools

During the year, the School District generally conformed with the act except in the following instances:

Expenditures exceeded budget levels in certain categories in various School District funds for which budgets were adopted. A listing of the funds in which this has occurred is as follows:

	Excess Expenditures/Expenses
General Fund:	
Basic Programs	\$152,946
Pupil Services	13,569
Employee benefits - supporting	3,915
Capital Outlay	102,772
Special Revenue Funds:	
Food Service Activities	7,727

We remind the School Board of the provisions of P.A. 621 and recommend in the future, practices be refined and more closely monitored to conform to the Act.

Reportable Conditions

General Ledger Reconciliations

Some of the Districts general ledger accounts were unreconciled at year end or contained amounts which needed to be adjusted. These accounts were cash and certain compensated absences. The basis of the strength in any system of sound internal control is the reconciliation function. We strongly suggest the general ledger accounts be reconciled on a monthly basis with the appropriate accounting entries being made to the system. This will insure accurate financial reporting on an interim basis for decision making by the Board of Education and management.

Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls. We appreciate the cooperation and courtesy extended to us by the District's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

This report is intended solely for the information and use of Negaunee Public Schools.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 30, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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September 30, 2005

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

We have audited the basic financial statements of Negaunee Public Schools for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the School District. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our auditing procedures and not to provide any assurance concerning the adequacy of such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies adopted by the School District are described in Footnote A. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgements and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly

Board of Education
Negaunee Public Schools
Negaunee, Michigan 49866

sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the School District that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. We made no such adjustments during the course of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a second opinion on certain situations.

If a consultation involves application of an accounting principal to the School District or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us so as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Board of Education and management of the School District and should not be used for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants